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ABSTRACT

For the countries of Eastern Europe and the former Soviet Union, financing schemes of vocational education and training (VET) of other industrialized countries are possible prototypes. These "Partner Countries of the European Training Foundation (ETF)" should focus on the balance of responsibilities between central and local bodies and on government structures and funding from public budgets. VET funding sources are central and lower-level government budgets and employer and trainee contributions. Most ETF countries have set up national funds that receive allocations to finance labor market training. Worldwide, methods of financing vocational education involve various degrees of decentralization: central governments' education budgets; funds generated at each government level; public funds administered by employer-led organizations; three-stream funding in the dual training system; and performance-based financing of independent schools. Financing methods of organizational structures of labor market training include the following: unemployment insurance-based training funds; model of regional planning and coordination; financing national training agencies; funding through employer-led organizations; funding through federal programs; and delegation of powers to the social partners. The major problem faced by ETF countries is underfunding of public VET due to shortage of state education budgets. Two solutions are decentralized financing schemes and market-based schemes. Both have positive and negative implications. (YLB)

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Advisory Forum Meeting
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Subgroup A: Financing Vocational Education and Training

A Report commissioned by the European Training Foundation

By Vladimir Gasskov (ILO)

April 1996

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Financing Vocational Education and Training

(particularly the balance of responsibilities between central and local bodies)

I. CONCEPTUAL NOTES

1. Why focus on financing VET?

The purpose of this report is to examine the current situation regarding the financing of vocational education and training (VET) in the countries of Eastern Europe and countries of the former Soviet Union which are the "Partner Countries of the European Training Foundation (ETF)". The report also offers some VET funding options developed in industrialized countries as well as in the ETF Partner Countries themselves.

This report focuses on the balance of responsibilities between central and local bodies and therefore will concentrate primarily on government structures and funding of VET from public budgets. However, some other, perhaps not entirely government structures and VET financing schemes involving non-government sources, will also be discussed.

There are several reasons behind the growing interest in studying and reforming national systems of financing VET. Firstly, financing, being a management function, can help to improve the VET systems' and institutions' flexibility and cost-effectiveness through, for instance, offering incentives to the best performing providers or improving the administration of VET funds.

Secondly, due to the stagnating and even diminishing government education budgets in many countries, the need increasingly arises for co-financing of national VET systems by governments, employers, and workers. This has required the development of new financing tripartite and sometimes bipartite arrangements.

Thirdly, employers are normally expected to invest in human resources development. However, the training provided by employers has in many countries been judged to be insufficient and underfinanced. Special incentive and compulsory schemes are, therefore, utilized by governments, with different rates of success, to elicit greater investment of employers in human resources.

Finally, many diverse VET financing mechanisms exist and each is selectively sending signals to its respective beneficiaries. Each of these mechanisms has its limitations and requires its own environment to produce best results.

2. Government structures and VET financing mechanisms

A. VET systems

The term "national vocational education and training system" will be used in this report solely for discussing very general issues. A national VET is rarely homogenous and normally falls into several VET systems normally having their own organization and management structures, which may be decentralized to a different extent; they use earmarked allocations and apply specific financing schemes. In addition, these systems often target different groups, may use their own training providers and even VET support structures. The terms "further training" and "continuing training" systems will not be used here as they are not normally associated with distinct management and financing structures.

The following VET systems can be distinguished:

- Vocational education which is long-term instruction with a large proportion of general education subjects. It is normally administered by education ministries;
- Labour market training, by which we mean a provision of job-related, usually short-term, courses to the young people, unemployed and employees. It is usually administered by labour ministries with the increasing involvement of local authorities and social partners;
- Employer training (enterprise training) by which we mean an instruction provided by employers for their employees either voluntarily or in compliance with national compulsory regulations. The roles of governments in providing guidance and training funds to enterprises vary across countries.

In this report, only the vocational education and the labour market training, which are primarily government financed and guided or administered systems, are discussed.

Any VET system has at least three major structural parts — VET administrative bodies; organizations providing VET technical support (VET infrastructures); and training providers. By VET infrastructures we understand organizations, other than training providers, involved in the establishment of national vocational qualifications, curriculum development, assessment and certification of trainees, instructor development, etc. All three parts of a VET system require funding with sometimes different sources. For instance, the VET administration may be financed from government budgets, while VET infrastructures may be financed by the social partners, and training institutions may charge the students fees. There are many combinations of the above sources.

B. Links between VET administrative structures and financing schemes

The structures which administer VET cannot be seen in isolation from other government structures. National VET financing schemes are determined by the way the VET administration is organized since the decisions on funding sources and procedures are made or determined by governments. The types of VET administrative structures established by governments and the patterns of their decentralization are fully reflected in the VET financing mechanisms. VET administrative structures and procedures applied are not normally unique, they have much in common with those applied in the administration of health, public transport, area planning, etc.

It would be of little use to define some countries as utilizing either centralized or decentralized VET management and financing mechanisms. The completely centralized and the completely decentralized management systems are non-existent. Managing VET embraces a number of functions each of which may be decentralized to a differing extent. Financing is just one management function, however important it may be. It would also be too simplistic to judge the decentralized VET management and financing structures as good because of the very fact that they are decentralized. There has been no direct link between the level of decentralization and the quality of VET services. For instance, the VET systems in the Republic of South Korea are highly centralized; however their performance is often deemed to be as exemplary. By contrast, the VET structures applied in the United States are decentralized; however, the quality of VET is still far from being fully satisfactory.

There are two types of links between VET funding and VET administrative structures. The first variety of options arises from the types of funding sources. For instance, the funds for VET may be generated either solely at the central government level or each government level may be authorized to generate its own education funds. Another alternative is that the social partners, too, may be required to contribute to VET budgets or to fully finance training within their economic or industrial sectors.

The second variety of combinations arises from distinguishing the government levels and other actors which acquire the authority to administer the VET funds. The management levels and bodies which administer VET funds are not always the same as those which generate them. The responsibility to manage State VET funds may be delegated to lower- level government authorities, social partners, specially created professional management bodies, national training agencies, etc. Training providers which receive and actually utilize VET resources may also be given full powers to manage public allocations. The countries in which publicly funded VET providers possess little management freedom remain widespread. In some countries, however, public providers are required to earn their budgets through selling services in the market; through this they acquire the freedom to administer their funds.

3. Who should pay for training?

The following VET funding sources can be identified: a) central and lower-level government budgets; b) employer contributions, both voluntary and compulsory; c) trainee contributions.

VET financing schemes should generally be based on the principle that training is a service, and that its direct and indirect beneficiaries should bear the cost. Government budgets, aimed at promoting economic growth and increasing employment, are one major source of VET financing. Governments can either finance, or both finance and provide, vocational education and entry-level vocational training. They can also finance and provide another costly service: training for the unemployed.

Employers are the second major source of VET financing; in some countries, their contribution outweighs that of the government. The role of employers usually consists of providing job-specific training and upgrading programmes that enable workers to meet changing job requirements. In theory, they receive benefits in the form of higher productivity and profits.

Trainees are the major direct beneficiaries; because of the increased post-training value of their skills, they can expect higher earnings. Individuals can finance their training by accepting reduced wages during training, as in an apprenticeship system. They can also use family savings, or borrow from other sources to pay training fees.

A number of arguments are normally considered when sources of VET funding are decided-- cost-effectiveness of expenditure, status of VET markets and equity. Firstly, from the cost-effectiveness standpoint, public VET funding is justified when effects (externalities) of government expenditure are broad enough and affect large groups of the population. That means that public funding of general education is fully justified. While financing of vocational education should, in principle, also involve other, as well as public funding sources since vocational education affects individuals' and society's well-being perhaps equally. Vocational training, in particular, should not be seen as the public interest alone; it makes also an impact primarily, on the well-being of individuals and of their employers. The trainee's and employer's contributions to the cost of job-related training should prevail. The cost of individual training is often subsidized by governments on the grounds that trainees do not reap all the benefits of their training investment, but rather that some accrue to society as a whole.

Secondly, governments may become the prevailing funding source in countries and areas in which VET markets are weak or almost non-existent and when market imperfections distort incentives for employer and individual training investments. Public funds may be used in order to create VET markets through encouraging training providers and empowering trainees (buyers) to purchase training services.

Thirdly, public expenditure is widely perceived as having the power to create equal VET opportunities for those who experience constraints. Public VET institutions can aim at equal distribution of services among territories, sectors, employers, and individuals - taking into account such factors as gender, class, race and income. For these reasons, the government's role in financing VET can never be fully replaced by contributions from other social partners or by market forces.

The above arguments can be used for setting priorities for government education budgets, particularly when they experience serious constraints. The wealthier countries, of course, afford greater government financing intervention in VET, which can be unjustified on economic grounds.

II. VET FINANCING SCHEMES IN ETF PARTNER COUNTRIES

1. Vocational Education

A. Centralized funding

In *Russia*, centralized financing of education remains in force. It has been particularly difficult to secure a state budget allocation for education as at this point in time it is given low government priority (ranked 9th). In 1995, the state was able to provide, on average, only 60% of the necessary allocation on education. The current funding figures and proportions are established on the basis of actual educational expenditure of 1992. Since only weak and irregular support is given at regional levels, schools themselves have to earn the residual in order to balance their budgets. The Employment Service has become one of the important contractors, financing up to 15% of total enrolment in vocational education.

The status of funding education varies fundamentally across 89 regions with three main mechanisms currently applied. First, 15 regions which fully finance education from their own budgets have their contributions to the federal budget reduced accordingly. Second, another 15 regions receive their education funds directly from the Federal Ministry of Finance which supervises their utilization. Third, the education funds allocated for the remaining 59 regions are distributed and administered by the Ministry of Education.

State education grants allocated to regions are, in principle, based on estimates (plans) of future school enrolments which are submitted by regions to the Ministry of Education. These state grants are standard and do not differentiate between vocational programmes of various complexity. Nor do they take into account the variation in the local cost of maintaining vocational schools (heating, electricity, etc.) across regions which appears to have become very pronounced. Because of this variation, local authorities used to draft and send bills reflecting the real cost of vocational education, the total amount of which far exceeded what the Government could actually finance. Since the enrolment-based financing in its current form appears to be inapplicable the new techniques are sought.

Decentralization reform has been relatively slow and uneven across the country. At present, many more regions wish to acquire greater autonomy in managing locally raised general revenues with little will to accept responsibility for financing local education and health. The Ministry of Education has been resolving this problem through concluding individual agreements with each region over financing education. Fifty-two such agreements have been concluded so far.

Given the shortage of state education funds, the new government policy has been to achieve and maintain throughout the country certain federal training standards by means of providing the minimum guaranteed funding to all vocational schools. The above agreements assume that the minimum salary for school staff will be provided by the federal government as well as national textbooks, while regional authorities will cover school maintenance costs (building, heating, electricity, etc.). The most sensitive budget line is perhaps for staff wages which, if provided centrally, is thought to be able to a certain extent to secure staffing and lessen the number of school strikes. The national supply of textbooks will certainly contribute to the spread of national training standards.

In some countries of Eastern Europe, the *Slovak Republic*, for instance, a central funding mechanism has also remained with the state budget fully providing funds to vocational schools. In *Albania*, schools remain underfunded. Although approximately 80% of school budgets are secured by the state, the district authorities themselves have no education funds of their own. In *Poland*, the state government and communes co-finance education with approximately one-quarter of educational establishments' recurrent budgets are covered by communes. However, communes finance primary schools and kindergartens, while only 0.2% of commune budgets are allocated to basic vocational schools. Insufficient public funding resulted in significant school debts. It was therefore decided to raise additional funds through charging students fees which make up about 17% of school budgets. In addition, private vocational schools have been encouraged. State grants are transferred to schools through regional education superintendents who have full responsibility for supervising schools. In funding schools, a standard grant principle is applied which is based on the standard instructor wage. In addition, account is taken of the operational conditions of individual schools.

In countries of *Central Asia*, a centralized system of educational administration has remained almost intact. Due to the state budget deficits in all of these countries, governments have been unable to finance vocational schools at their previous level. Common decisions are underfunding of schools or closing some of them. Thus, the *Uzbek* government provides 80% of school budgets, while 10% is provided by municipal authorities and the residual is raised from various grants. The state vocational education budget is supported by 60% in fees paid by students in higher education. In *Kyrgyzstan*, only 50% of school budgets is secured from the state budget while the residual is expected to be provided locally. Since local budgets are unable to finance schools, for a period of the time teachers received no wages. By contrast, in *Armenia*, for financial reasons, the number of vocational schools has already been reduced from 105 to 75. At the next stage their number will be further reduced by two-thirds (i.e. to 25).

B. Multi-level financing

Vocational education in *Hungary*, is financed from three sources-state subsidies, local government subsidies, and the Vocational Training Fund. The state subsidies are fixed annually for vocational secondary schools and for apprenticeship schools. For the former, the amount of HUF 66,000 is allocated per student without any account taken of the type of vocational programmes offered. For the latter, the state allocations are made separately for theoretical programmes, workshops and accommodation. Although these allocations take account of the greater cost of practical training, they are standard too, and do not differentiate between the types of vocational programmes. Thus, for 1995, the overall grant per student in apprenticeship schools was HUF 42,100 for theory and HUF 40,600 for workshops, totalling HUF 82,700, which is higher than that for secondary schools. Therefore, it is the county authorities which are expected to encourage financially the development and provision of more complex and obviously more expensive VET programmes.

The Vocational Training Fund (VTF) is linked to the legal obligation imposed on companies to spend 1.5% of their wage bills on training. Within the compulsory training allocation, companies have to make a compulsory payment to the special account called the Vocational Training Fund (VTF) which is administered by the tripartite National Training Council (NTC). They can also finance their own courses and provide direct asistance to vocational schools. For instance, in 1995, out of the compulsory training allocation, companies spent 42.7% on training of their employees and 37.3% on financial assistance to VET schools, while 19.9% was remitted to the VTF.

Education funds of counties and big cities come from the wage tax, from which between 15 and 30% is left for the local budgets. In addition, part of the VTF is allocated to tripartite County Labour Councils which distribute these funds between local schools on the merit of competition. Schools are invited to submit development proposals for biddings regarding the use of these monies. Recently, the ratio of the VTF's central and decentralized portions have changed from 60/40% to 10/90%. County educational authorities receive state and VTF grants which are enrolment-based and make up the budgets of local VET schools. VET schools are free to spend their budgets as they see fit.

The role of the above three sources has been changing over time. In 1996, vocational secondary schools will receive funding, on average, in the following proportion: a) state budget – 27.5%, local governments – 53.5%, and the VTF – 19.0%. Because of the depreciation of local currency and the rise over the last 5 years of 2.4 in the consumer price index, rapid increase of overall funding in absolute figures has been necessary. In this period, in relative terms, the overall state grant to schools hardly increased at all, while the contribution from the VTF increased by 1.5 and the county governments' contribution has risen almost seven times. That means that the increase in funding has been primarily at the cost of local budgets, with the state and ETF roles actually diminishing.

Unlike most of the above countries, the Government of the *Czech Republic* has been able to sustain both a percentage of state expenditure and percentage of GDP which are devoted to education. The former, in 1992, was about 15% being a remarkable achievement in the context of broad reform. A price that has had to be paid for this is a decline in relative wages of teachers as well as of other civil servants. All schools, including those in the vocational sector, were given a legal identity as separate organizations with some administrative guidance by municipalities who beca

me their legal founders and with technical supervision assigned to regional bodies of the National Education Ministry. Secondary vocational schools have been separated from entreprises with their costs shifted from enterprises to the State.

The State provides enrolment-based grants to all vocational and technical schools amounting to some 80% of their budgets. These grants are chanelled through municipalities which can only add to but not reduce them. Normally, they add about 20%, particularly in capital funding. Proprietary technical schools have been encouraged with their number amounting to, by 1994, 27% of schools. Proprietary schools are also entitled to state funding in addition to which they receive about a quarter of their funds through student fees.

C. *Variety of experience and conditions*

The ETF partner countries feature great differences in their experience of funding education, decentralization and local conditions. Taking this into account, three groups can be distinguished:

- A few countries which feature an advanced stage of decentralization of financing vocational education. In Hungary, for instance, decentralized VET financing structures involving contributions from all major stakeholders, as well as levels of government administration and corresponding legislation, are well established;

- Larger States which have recently begun the process of decentralization of VET administration and financing. This process has been and continues to be spontaneous, sometimes resulting in legal arrangements falling behind real funding practices. Devolution

of powers to regions and other large territories is being implemented at different speeds and will probably take considerable time to accomplish;

- Countries which do not currently consider essential any move towards decentralized administration, including education. They include most countries of Central Asia.

2. Labour market training

In *Hungary*, for instance, labour market training is financed from the Employment Fund which is sourced from the state budget allocations as well as by privatization revenues from sold public companies. By contrast, the Social Fund which handles unemployment benefits is financed by taxes of 4.5% imposed on company payrolls and 0.5% imposed on individual wages. The sources of the Employment Fund are less secure and, in 1994, the Social Fund accumulated a large surplus, while the Employment Fund was in deficit with a number of training programmes suspended. To redress this situation, the two above Funds, plus the Vocational Training Fund and certain other funds have been amalgamated into the new Labour Market Fund (LMF). The utilization of the LMF's training allocation is to be recommended by the National Vocational Training Council and decided by the Minister of Labour. In parallel, the National Labour Market Council has been set up in order to advise on the utilization of the LMF part dealing with unemployment benefits.

The LMF's allocation to counties is administered by tripartite County Labour Councils which are responsible for supporting job creation. County Labour Councils operate funds through their County Labour Centres which commission training centres and private providers to carry out courses. Local training progammes are conducted by public regional labour market training centres (LMDTCs) each of which serves to 2-4 counties. The development of LMDTCs was financed by contributions from the state, county and a World Bank loan. A county provided premises for the LMDTC, the state covered the cost of the bulding's upgrading, while the equipment and training of their staff were financed from the loan. Currently, 40% of LMDTCs' annual budgets comes from the state and the balance from selling services to County Labour Centres.

In *Latvia*, labour market training is financed from the Employment Fund which receives allocations from the so-called privatization revenues. They are raised from new owners of industrial property who failed to retain in service the previously employed labour force. These employers are required to pay a flat charge for each laid-off worker. In addition, part of the money received by the Privatization Agency from sales of public property should go to the State Employment Service in order to finance retraining programmes. Retraining programmes for the unemployed are offered by vocational education schools and financed by the State Employment Service. In future, enterprises will also be commissioned to conduct training for the unemployed.

In *Poland*, the Labour Fund is the major source for funding employment training programmes. It receives subventions from the state budget and part of the social security contributions. The allocations from the Labour Fund are given to provincial employment offices which allocate funds to their regional offices. The labour market system does not have its own training centres and commissions training providers to conduct courses. The unemployed taking up courses have been encouraged by the training allowance which is 15% higher than the unemployment benefit. Enterprises are encouraged to train and employ redundant workers. If an enterprise instead of laying-off its employees retrains and subsequently employs them for at least 12 months, half of this training expenditure will be reimbursed by the regional employment office.

In *Russia*, the State Employment Fund is sourced by labour market contributions of 1.5% imposed on company payrolls which are collected by regions. Regions remit one-fifth of these moneys to the federal part of the State Employment Fund which aims at redistribution of resources towards labour market programmes in less wealthier regions. Another one-fifth of regional funds is allocated for their retraining programmes. Although the training part of regional labour market funds is relatively large amounting to 20%, the annual number of unemployed in retraining programmes remains relatively small (10% of registered unemployed a year) reflecting the fact that regional administration and control of labour market programmes and training funds is yet to improve. In some regions, the overaccumulation of unspent labour market funds has been observed.

A. Greater similarity in financing arrangements

The countries in question show a great similarity in establishing financing schemes for labour market training. Almost all of them turned to setting up national funds which receive allocations from privatization revenues, the unemployment insurance allocations as well as from state budgets. The countries not implementing any broad privatization programme have apparently been unable to activate this major source for financing the development of labour markets. None of the countries have reported any labour market funds raised at the regional level. In countries with decentralized government structures, regional tripartite labour councils have been established which actually receive and administer the combined labour market allocation. It is used for payment of unemployment benefits as well as for funding training courses. However, in relative terms, the training portion of labour market funds is very small, only amounting to 1-2%.

III. THE WORLD EXPERIENCE OF FINANCING VET

1. Vocational Education

A. Funding schemes

Provision of vocational education to young people is normally considered as the government responsibility and financed from government education budgets. The social partners hardly contribute to vocational education budgets, the exception being the countries utilizing the so-called dual-systems. Vocational education is normally administered and financed as part of the national education system. As a result, the allocation for vocational education is not earmarked, and the VET authorities have to compete for funds with the general and higher education directorates at both national and lower government levels. Normally, vocational education is the least decentralized VET system compared to others. Five schemes of financing vocational education may be considered involving various degrees of decentralization.

a) Central governments' education budgets

This model assumes that the education budgets are raised by central governments from the general revenues (taxes). These funds, however, may be administered either centrally or with partial participation of lower level authorities.

For instance, in *France*, an attempt to decentralize vocational education has resulted in each of the four levels of government administration sharing a certain part of control over vocational education:

- The National Ministry of Education is responsible for the most important parts of the education process-teaching staff, curriculum development and inspection of educational institutions;
- The 28 educational districts (Académies) which correspond for the most part to administrative regions have major decision-making authorities. The Chief Education Officers who are part of the regional prefects' offices run the Districts on behalf of the Minister of Education while the elected Regional Councils control operations of lycées;
- The departments' general councils control operations of colleges;
- The commune authorities are given the power to define the profile of education institutions, decide their location and equipping.

The Regional Councils are required to draft the outline education plans (OEPs) in order to coordinate the action of different players. The 22 Regional Councils, with the agreement of 96 departments, draw up and transmit to the Chief Education Officer the OEPs for secondary schools and other education (including vocational) establishments. In their turn, the departments' General Councils, with the agreement of communes, decide on the investment programmes for the creation of colleges (construction, number of pupils, etc).

The implementation of the OEPs is supported by central government's allocations to each educational district. However, the expenditure of the regional allocation is subject to the Chief Education Officer's approval. Under this funding structure, in 1990, for instance, the State central expenditure on vocational education was FF 275,000 million, while the local authorities spent FF 73,000 million.

In such a structure, the major financial, organizational and technical decisions are made at the national level. Lower-level authorities are primarily assigned the power of control. The initiative which the commune authorities are legally given in developing investment plans for educational institutions assures that technical capabilities of institutions match the local needs and occupations required. The linkages between education institutions and local needs have perhaps little justification as the local needs change much more rapidly than the education process. In fact, this financing pattern provides limited powers to the communes. They are not free to spend the allocated funds and the implementation of their plans is subject to the approval of the Chief Education Officer representing the Ministry of Education.

b) VET funds are generated at each Government level

This scheme means that government levels, other than the central, are given a taxing authority to raise revenues from which the corresponding education budgets are allocated. The lower level authorities are free to provide grants to education institutions.

For instance, in the *United States*, there are three levels of government administration--federal, state and local, with the educational authority reserved for the states. Individual states, in turn, delegate educational authority to local school districts. The local governments have the taxing authority and raise the education funds through the property tax. The value of property is assessed periodically, and a tax rate is applied. The property taxes generate considerable revenue and are the most stable form of taxation.

Individual school districts, however, vary greatly in the value of their taxable property. Property wealth and need for education funds are not distributed evenly between school districts. Local jurisdictions can choose to tax at a higher rate if they want to have a higher level of local funding. These tax rates are set by public vote. State funding is used to offset local funding disparities, at least in part. States specify a minimum rate at which local jurisdictions must tax if they are to be eligible for state funds.

State financing for public education comes mainly from the income tax which is less stable than the property tax because it is directly influenced by economic fluctuations. Most states use some type of equalization scheme in order to even out differences between school districts in their ability to support education. The basic approach is that a state allocates to all schools a given amount per full time equivalent (FTE) student enrolment. In order to compensate for differences in taxable wealth a state provides additional funds to low revenue-generating districts. This results in a basic foundation level regardless of community wealth. Common practice among states is to provide additional funding for VET because it is a higher cost programme. The allocation may also vary according to different categories of programmes. Special VET funds are usually a percentage of regular FTE funding.

The distribution of federal funds attempts to correct differences in wealth and to encourage certain kinds of VET programming locally. The federal Government allocates funding for VET from general tax revenue in two basic ways: matching and categorical. Only local school districts, but not states, are eligible for these funds. Matching funds are allocated to local school districts on the basis of an equalization formula. However, the local school district must first commit a certain amount of its own resources. In this way, the federal government gains influence over local programming, but its resource commitment is modest. Matching funds, however, are an unstable source of funding since federal appropriations are subject to delay and fluctuation. They usually account for no more than 6 to 8% of local schools' recurrent expenditures.

The local school districts have the greatest control over VET operations since they provide the greatest share of funding. Even though the overall level of state contribution to vocational schools is considerably higher than the federal, it is largely general aid based on FTE enrolments and thus loses much of its policy leverage. In contrast, federal funds encourage innovations with a very limited financial investment. This is because most states align their own priorities with those of the federal Government. A relatively high level of federal funding is provided to state authorities to carry out monitoring functions. Through collaborative funding, each government level achieves objectives that it otherwise could not attain by funding VET alone.

In this financing scheme, the three levels of funding complement one another. In this way, some of the adverse consequences of public financing are countered. Greater equity and sustainability is achieved. The obvious environment necessary for this system is a decentralized form of government and a multi-level tax structure. A collaborative relationship must be developed between the three governmental levels, with clearly defined authority and responsibility.

However, the complementarity of sources may easily become a source of and distortion. Through financing, all three government levels translate their policy guidelines to local VET schools, which develop their programmes taking each into account. In addition, the higher government levels normally experience shortage of funds and set ceilings for their contributions, with obvious consequences for equalization.

c) Public funds are administered by Employer-led organizations

This model provides that central government finances VET through specially established non-government organizations. For instance, in *Britain*, it is the central government's tradition to manage VET operations through intermediary bodies instituted between itself and training providers. The intermediaries have the power to shape, advise and fund the system but do not control or direct it. These bodies have the legal form of non-profit making companies established and wholly funded by the Government with no resources of their own. They operate outside the Civil Service rules and the majority of their Boards should be drawn from employers. They operate on the basis of contracts signed with the Government. The power to finance and control colleges have been devolved to these employer-led bodies from Local Education Authorities (LEAs) which belong to local governments.

At the central government level, vocational education is governed by the Department for Education. It has established an intermediate management body called Further Education Funding Council for England (FEFC(E)) which provides funds and supervision for 462 Further Education (FE) Colleges offering vocational and technical education programmes. The FEFC(E) HQ has a staff of about 250 people and three main operating Departments: Finance, Programmes and Inspection. The Council employs a large force of inspectors, full-time and part-time to report on each college at least once every four years. It also has nine regional offices where the other 150 staff are based. The overall number of staff (400) might seem high, but compared to the staff previously employed in the LEAs and the Inspectorate of the Department for Education, this is an economical task force.

The Department for Education has also established, provides funds and controls nominations to major VET support organizations which are also registered as non-profit making companies. Among them are the Further Education Development Agency (FEDA) offering advisory services on curriculum development; the three major Awarding Bodies – the City & Guilds of London Institute, the RSA Examinations Board and the Business and Technology Education Council which are the only bodies allowed to award the General National Vocational Qualifications. Although these latter bodies are self-financed, they are often given advice and guidance from the Department for Education.

Colleges, also government established Companies, receive their funds mostly from the FEFC through provision of VET services within the national FE programme. The FEFC has developed what it calls an Output Related Funding Model. The basic principle of the funding system is that there is no base funding: funding is exclusively based on enrolments. The colleges, therefore, receive their funds as revenues for rendering services in the market while the government is the major client.

It is worth noting that under this scheme, little or no role in financing and control is left to the local authorities. Since these intermediate bodies are registered as companies operating on the basis of contracts signed with the Government, the expected implications are reduced bureaucracy, higher operational flexibility and greater management competence and, eventually, better value provided for the public VET funds.

d) Three-stream funding in the dual training system

In Germany, Switzerland, Austria and, most recently, Denmark which apply the so-called dual VET systems on a national scale, in-firm practical training is combined with part-time school-based education. So too, is financing of the dual system which combines the employer contribution covering the entire cost of the practical instruction with the governments' education budgets provided to the training schools. The trainees' contribution normally is their productive work.

In *Germany*, for instance, the dual system is financed by the federal and Laenders' governments, employers and trainees of which the employer part is the largest. As a result, the federal government is able to secure considerable savings. The federal contribution consists of providing budgets for the Federal Ministry of Education and Science, and the Federal Institute for Vocational Training. In addition, the Government provides rebates to employers whose training expenditures are deductible from taxable profits. The governments of Laender provide grants to local authorities for the construction and maintenance of training schools, purchase of equipment, and instructors' wages.

The cost of the dual system to employers is enormous of which the apprentice allowances form the major component. Employers also pay fees to vocational training schools for training of

apprentices. High expenditures are required in order to pay instructors' salaries and maintain facilities in accordance with the guidelines enforced by the Chambers.

In most firms, although by no means all, apprentices are productive enough to reduce the burden of employer expenditures. Recent estimates suggest that the ratio of expenditures to benefits differs widely among various types of firms. The largest enterprises tend to receive fewer productive benefits from their expenditures. Small firms benefit considerably more and spend somewhat less. In 1991, the average expenditure of an employer reached DM 31,800 per apprentice per year; the average productive benefit from apprentices was DM 11,300. In other words, employer average net costs exceeded DM 20,000 per apprentice per year. This figure was very high, considering that only half of the apprentice graduates remain with the firms that provided their training.

In 1991, in addition to the overall government expenditure of about DM12.2 billion, employers spent roughly DM 24.5 billion on the dual system. Thus, the total annual national cost of apprenticeship
– roughly DM 36.7 billion – was divided among governments (33%), employers (44%), and trainees (23%).

Given the advantages of instruction under the dual system, this financing mechanism seems to be one of the most promising. On the other hand, many attempts to introduce the dual system in other countries failed because of failure to agree on its financing mechanism which assumes voluntary and firm commitments from all the parties involved.

e) Performance-based financing of independent schools

Several countries like the United Kingdom and Denmark, have delegated most of the management powers to colleges. The colleges' legal status has changed and they have emerged as non-profit companies (UK) or self-owning institutions (Denmark). For instance, in *Denmark*, vocational schools have been given full administrative and technical responsibilities which were in the past implemented centrally. They have acquired full freedom and responsibility for operating independently in the market.

The responsibility for vocational education remains with the Ministry of Education. However, there are no other intermediary administrative levels between the Ministry and training schools. The Ministry's management and financing responsibilities have changed dramatically from direct administration of schools to the development of VET policy and issuing the Educational Orders in which a broad framework for VET courses is laid down. The independent schools which wish to obtain public funds have to comply with them in the provision of courses.

The schools are expected to earn money through selling courses in the market. However, the Ministry of Education remains the major purchaser of authorized training courses. The Ministry has introduced a "taximeter"-based financing mechanism which has made a tremendous impact on the operation and management of vocational schools. The taximeter consists of two parts: an objective activity target and a rate. A school's activity target is expressed in the student full-time equivalents (FTEs). The courses are divided into groups on the basis of the programme cost. The taximeter system places all training programmes into one of the six groups which assume grants ranging from DKK 20,000 to DKK 60,000 per year per student FTE.

Schools receive the grants four times a year on the basis of the auditing reports presented to the Ministry. If students drop out, the total amount of grants automatically shrinks. The grants are not

earmarked and schools are free to allocate these resources as they see fit. That means that school boards may decide to employ fewer teachers and buy more equipment.

The new funding arrangements have promoted greater efficiency of schools through competition for students. The schools now have to assess their intake capacity and utilize it effectively in competition with other providers for public funds. To date, no schools have had to close down or proceed to bankruptcy due to financial failure. However, a number have experienced serious problems and have either had to merge with other schools or apply to the Ministry of Education for grants. Some schools, being under pressure from competition, have increased the average class size.

In the model combining central VET funding with the full autonomy of training providers, the change of the providers' legal status is not the major precondition for full delegation of responsibilities to them. A decentralized structure can be introduced and the advantages associated with it can be utilized with the providers remaining public institutions as, for instance, in the US. However, the only authority which the government should retain, if it wishes to have these institutions performing towards nationally set policies and targets, is administering funds for purchasing their programmes.

B. Discussion

The delegation of powers to administer and finance vocational education to the local authorities, employer-led organizations or VET providers has various advantages. For instance, local authorities, to a greater extent than central governments, may be interested in having more young people enroled in VET programmes with fewer drop-outs. Along with local employers and unions, they are also interested in acquired knowledge and skills better fitting the local job requirements. In that sense, the delegation of management decisions to the lower government levels should be accompanied by the delegation of funds.

A market-based financing model naturally assumes deep decentralization of VET operations. In the UK, this model has been enforced through the legal reform of corporatization of colleges. This financing model has resulted in strengthening of demand-driven performance, better cost-effectiveness of colleges and, hopefully, savings of public education funds. However, without developed training markets in a given country such a reform would not be successful. A similar, but much softer solution, has been the Danish reform of vocational education implemented in conditions of a less competetive training market with fully the dominating public funding.

A correction mechanism for disparities in the need for VET funds occurring between states and school districts has been developed in a country as large as the US. A three-tier system of balancing vocational education funds works in conditions of high decentralization and a very limited federal government role. Notwithstanding the unavoidable constraints of this mechanism relating primarily to the limited funding capacity at each of the three levels of power, it gives a clear message that such balancing of VET funds is necessary and possible.

All the above innovative financing schemes can be considered when substantial central VET budgets are available and the major task is to improve the effectivenes of their utilization. However, the above approaches can hardly generate additional educational funds.

An exception is the mechanism applied in the US, which indicates possible new sources of education budgets and the corresponding roles of authorities at all levels. In countries with the tradition of centralized control, a multi-level taxing authority does not usually exist. This reduces overall revenue-generating potential and, in addition, reduces local flexibility and initiative and subjects the training system to all of certainties and uncertainties associated with centralized funding.

2. Labour market training

A. Financing schemes

The labour market training systems provide job-related courses to the broad range of population--young people, unemployed, employees. These systems normally operate independently of vocational education in terms of both organization design and funding. Six types of financing patterns associated with organization structures of labour market training can be identified:

a) Unemployment insurance-based training funds

The unemployment insurance funds are very common in industrialized and most transitional economies. Although they are commonly used for distributing unemployment benefits, they all the more provide financing for training programmes. These funds are normally administered by governments and social partners.

For instance, in *Japan*, the Employment Insurance system is administered by the Ministry of Labour and consists of four services: the main service, which provides unemployment benefits, and three special services aiming at vocational abilities development, employment stabilization, and improvement of workers' welfare. Correspondingly, the Employment Insurance budget is divided into two accounts, one of which is for unemployment benefits. Employers and workers pay equal contributions of 0.55% of their individual wages into the account.

However, only employers contribute to the other account, which covers three special services: vocational abilities development, employment stabilization, and improvement of workers' welfare. Their current contribution is 0.35% of company payrolls. In principle all three of the special services' budgets are roughly equal. This means that the allocation to the Vocational Abilities Development Services is as little as just over 0.1% of companies' payrolls. For example, in the FY 1993 government budget, the share for the Vocational Abilities Development Services was approximately Yen 105 billion. Yen 90 billion comes from the relevant account of the Employment Insurance and the residual is made up from the general government budget and from the account of the Workers' Accident Compensation Insurance. From the budget of Yen 105 billion, Yen 79 billion (US$ 700 million) is allocated towards financing public VET institutions, training for the handicapped, and administration. The remainder is utilized for promotion of manpower development in the private sector.

Public VET institutions financed from this account mainly train employees of small firms and the unemployed. In addition, they offer pre-employment training to regular school graduates, most of them finding jobs with small firms. In FY 1993, 380 public VET institutions were financed from this account. The Vocational Abilities Development Services also offer grants to encourage smaller firms' training activities and provision of authorized programmes offered by private providers and by 71 community training centres.

Training employers are eligible for grants which, on average, equal one-third of their expenditures. Most grants are paid by governors of prefectures, while some of them are paid by the 600 Public Employment Security Offices (PESO) of the Ministry of Labour.

The above financing mechanism provides an allocation earmarked for training which helps to avoid any confusion and competition with other claims for funds. Most of the resources for labour market training come from employer contributions, which is unusual. To a certain extent, this scheme works as a redistribution mechanism for the funds raised from large firms and directed towards training of employees of small firms. Most larger employers never benefit from it.

b) Model of regional planning and coordination

In most countries, programming and financing of labour market training is decentralized towards lower level authorities through the process of regional planning and coordination. For instance, in ***France***, the Ministry of Labour, Social Dialogue and Participation has two departments--Delegation for Vocational Training (DFP) and the Delegation for Employment (DE). The DFP is responsible for establishing training policies for youth and special social groups. The DE deals with employment policy and training of job-seekers and employees about to be laid off. The DE operates through the National Funds for Employment (FNE) which are allocated from general revenues. In the long term the DFP is expected to merge with the DE.

At the regional level, responsibilities for training are divided between two major actors. The Regional Administration of Labour, Employment and Vocational Training (DRTEFP), which is part of the regional Prefect's office, is responsible for planning and financing of the employment programmes and support to sectoral training activities. The DRTEFPs are technically guided by the DE and practically finance and supervise all the employment and training programmes through the Departments' Labour and Training Administration (DDTEFPs). In the process of ongoing decentralization reform, the DRTEFPs will lose some of their coordinating functions to the DDTEFPs.

By contrast, the elected Regional Councils are given a principle responsibility for continuing vocational training of youth aged 16-25. The Councils are required by legislation to draw up regional training programmes for youth (PRDFs). The PRDF serves as a formal consultative procedure for programming and steering regional youth training policies. The Regional Committee for Employment and Vocational Training (COREF) monitors the regional training policies of the State and the Regional Council.

Financing of regions' training programmes is arranged from State allocations and their own tax revenue sources. In accordance with the above division of responsibilities, regions receive two allocations from the state budget. Each regional administration (DRTEFP) is given an allocation from the FNE to administer employment and training programmes. The Regional Councils are given another training allocation which is, however, strictly reserved for young people. The so-called State-Region Plan Contracts specifying the coordinated utilization of this allocation should be concluded and signed by prefects (representing the State) and by presidents of Regional Councils.

The allocation of government funds to regional government administration and to the Regional Councils is computed by using numerous criteria: last year's training expenditure, number of inhabitants, economic activity, unemployment rate, etc. Of the overall State budget allowances for training, only 10% are managed at the national level and 83% are made available to the regions. However, government training funds provided to regions make up roughly only 40% of the total training resources available to regions. The residual moneys come from local taxes. This is the reason for large disparities between regions' training funds which are only slightly compensated for by central budget allocations.

c) Financing national training agencies

Establishment of a national training agency means delegation of powers from a government ministry to a specially established public organization which is normally run by professional managers. National training agencies normally conduct operations through their regional offices and training centres. Two organization and financing patterns of national training agencies can be distinguished. Fully government funded agencies are most common although they sometimes are required to sell services in the market. At least, for such "budget" agencies, the revenues are not important. A corporatized national agency which remains public but recives no central government allocation and is therefore required to earn its funds in the labour market is the emerging pattern.

For instance, in *France*, the National Association for Adult Vocational Training (AFPA) is the leading training agency with the tripartite administration. It targets young people, long-term unemployed, and risking redundancy. It has 22 regional agencies and 130 training centres which are staffed by 10,000 employees. Being, since 1947, fully financed by the Government, in 1995 it received only 70% of its budget and was required to make up the balance through selling training services to private firms and Regional Councils. From being the administering and funding agent for the AFPA, the State is becoming, rather, a client negotiating the training services it buys from this agency. The AFPA's regional agencies directly operate in the training markets with their regional training centres becoming profit-centres.

The pattern of the corporatized training agency has recently been pioneered in *Sweden* aiming at improvement of the cost-effectiveness of labour market training. The reform began with the establishment of the Labour Market Administration (AMU) in order to direct government labour market policy. The functions dealing with training supply and demand were formally separated. Responsibility for training supply was assigned to the autonomous training agency known as the AMU Group. It was decentralized with 24 county offices (AMUs) which enjoy a high degree of independence, and are led by their tripartite boards. Training is provided by AMU Skill Centres.

The tripartite National Labour Market Board which reports to the AMS is responsible for purchasing the range and quantity of labour market services needed. The 24 County Labour Market Boards (LANs) were given responsibility for procuring labour market services needed, including training. With the setting up the AMU Group as an autonomous body, the role of the LANs changed. They are now responsible for procurement of the most cost-efficient labour market training. They can purchase training services from AMU or other public and private providers. The AMU Group was thus forced to compete.

The later Reform of 1993 established the AMU as a single state-owned, revenue-financed, corporate concern. Financial and operational responsibility have been devolved to the corporate subsidiaries. In accordance with the Corporatization Bill all shares of the AMU Concern are owned by the State, and all shares of subsidiaries are owned by the AMU Concern. All posts in the governing board of the AMU Concern, including the position of

Chairman, are appointed by the Government. According to the Bill, the AMU Concern should "as far as possible" operate under the same conditions as any private training firm. Any further regulation, e.g. price policy for labour market training, would be contradictory to the aims of the corporatization. The influence of the State is exerted through its role as owner and procurer of labour market training.

d) Funding through employer-led organizations

Similar to the earlier described employer-led bodies in the UK which are involved in funding vocational education, another type of non-government organizations has been instituted by the British Government for administering public funds for labour market training. In the *United Kingdom*, labour market training is guided by the Department for Education but operationally administered by 82 Training and Enterprise Councils (TECs) in England and Wales. These are non-profit making companies established by the Government with their Boards of Directors dominated by local private employers. The TECs' task is to contract with, supervise and monitor training organizations which were commissioned to carry out publicly funded training schemes. Providers could be ordinary firms in production, sectoral organizations, and firms established mainly to provide training or colleges.

Each TEC is given a designated territory and has the sole responsibility for its area. Inside each area is a population varying from about two hundred thousand to about two million. The staff of a TEC will number between 50 and 140 but the internal organization will vary, because they are all independent companies. The TECs appear to have strong power in deciding which private firms they place contracts with, and which industrial sectors they develop training for.

As any other company, TECs operate outside the Civil Service rules, but under the rigorous financial discipline and obligations of the market place and of Company Law. They must make contracts with the Government, or any other purchaser of services, to provide training services and to trade, without a loss, in the market place. The Directors are under the same obligations as all Company Directors, to file Annual Reports at the Companies House and have the normal legal obligations not to trade fraudulently or recklessly.

The TECs appear to be highly decentralized organizations operating in their local labour markets and utilizing existing training capacities. In contrast to many other countries, there is no national training agency in the UK responsible for labour market training. The TECs are responsible for mobilising the existing training resources under the contracts they arrange. Money-wise, the TECs-based organization and funding of labour market training is perhaps a cheaper option than financially maintaining a national training agency. At least the TECs' overall staffing figure seems to be smaller than that of the French training agency (AFPA).

e) Funding through federal programmes

In the ***United States***, the federal government mainly influences VET operations through federal VET programmes which channel funds to the state governments and local VET providers. The federal government, however, is not involved in financing regular VET programmes. When federal programmes are terminated, or changed, so does the funding of them. Therefore the federal VET administrative structure is designed to develop federal programmes and manage the flow of funds allocated for them.

Presently, there are five federal VET programmes which are supported by five major pieces of legislation. These are the major instruments through which the federal government, with as little funding as possible, attempts to influence the state and local VET administrative levels and to encourage VET schools to to initiate new programmes or to target specific populations. Most federal VET legislation is therefore permissive rather than mandatory. In actual practice, most states opt for full participation in federal programmes because they cannot forgo federal support, even though it may be relatively modest.

The Job Training Partnership Act (JTPA) of 1982 is the largest training and employment programme administered by the Department of Labor and it is the only VET programme that is totally funded through federal funds. The JTPA provides grants to support programmes for specific categories of disadvantaged people, youth and adults, and training for older workers. The private sector was given a prominent role in designing and administering local employment and training programmes and it shares responsibility with local elected officials for selecting the providers of training services.

Federal regulations establish who is eligible for support under this Programme, what services can be provided, and performance standards. These standards are applied to the contractors, as well as to the programme completers and to training placements. The allocations given to the states under the JTPA are based on a formula which attempts to balance out the need with population size, effort, and financial capability. However, the funding is available to serve only 6 percent of the eligible population.

The process of applying for federal funds starts at the local level. A local school district must formulate a plan outlining how the objectives of the particular federally supported programme will be realized, including administrative aspects. The State Departments of Education, in turn, must develop a composite state plan made up of individual local plans and in conformity with the requirements of the federal legislation. The state plan also includes how the state will administer and manage federal funds. The state, in effect, becomes the administrative and monitoring arm of the federal government in implementing the VET programme. A portion of federal funds is used to support state administrative costs.

The thrust of VET federal legislation is to get schools and employers to work more closely at the local level. These efforts are supported by grants offered by the federal and state governments to what is called "local partnerships". These are the local working relations between suppliers and users of VET services, community leaders, school and government officials, business and labour representatives, etc. There is no legal basis for partnerships, which tend to be ad hoc arrangements, in order to qualify for state or federal funds.

At the state and local levels there is considerable duplication and overlap among the federal VET initiatives. There is no common set of administrative requirements or agreements on eligibility definitions, planning periods or reporting requirements. Similar groups and similar objectives are served. This provides local communities with wide programming and funding flexibility, but also includes considerable administrative wastage at all three governmental levels.

f) Delegation of powers to the social partners

Within the labour market training system, a very important financing role may be assigned to the employers' and unions' joint organizations. For instance, in *Denmark*, the National Labour Market Authority (AMS) cooperates with the tripartite and bipartite VET structures which have recently emerged with the responsibilities for funding and programming of training. The tripartite Adult Vocational Training Council has been formed in order to consider the policy, organization and financing of adult training. The Council advises the Minister for Labour on the distribution of funds among the economic sectors.

The Minister of Labour has formed the bi-partite Labour Market Training Committees for four major economic areas – industry, construction, commerce and services, and the public sector – and appoints a chairperson for each. These Committees are fully responsible for assessing sectoral training needs and programming and financing of courses in their economic sectors. They decide

on and claim the allocation of government funds for adult training within the above economic areas. These decisions are subject to approval by the Training Council.

Within each economic area, Continuing Training Committees have been formed. Of the current 56 Committees, 25 have been established in industry, 12 in construction, 16 in transport, clerical/commercial, service, finance and 3 in the public sector. The Committees' mandate is practical development of training courses for their sectors. They conduct the analysis of training needs and define training targets, duration and timing of courses, and produce frames for syllabuses. The operational costs of these Committees are covered jointly by the social partners. The Minister for Labour can also contribute.

The funding for the labour market training system is provided by the state. However, this government expenditure is refunded annually from the Activation Fund (one of the three Labour Market Funds) which is raised from the 5% tax imposed on gross wages of employers and employees. The rate of this tax will be increased by 1% of the wage bill per year and by 1998 will have amounted to 8%.

The overall government labour market training allocation is channelled towards three major groups of institutions. Firstly, the national training agency (AMU) is financed by the central budget allocation covering one-third of its basic operation costs as well as the cost of training programmes for disadvantaged groups.

Secondly, the four Labour Market Training Committees receive allocations in order to purchase upgrading courses for their sectors in the market. Therefore, another one-third of the AMU budget comes from the orders made by Labour Market Training Committees.

Thirdly, the government training allocation is made towards the Regional Labour Market Councils responsible for the procurement of initial training courses and programmes for the unemployed. They use these funds to purchase training from the AMU centres and colleges; these services bring in the residual one-third of the AMU resources.

The above experience features a deep involvement of the joint social partners' bodies in sectoral VET organization and funding. This scheme is sometimes called "self-management of trades". It is only natural that the social partners are fully responsible for the financing decisions as the labour market funds are made from their contributions. It is sometimes argued, however, that, being sectoral bodies, the Labour Market Training Committees are little concerned with the national employment problem.

B. Discussion

In contrast to vocational education which is normally considered as a government responsibility with the prevailing public funding, labour market training usually has a sophisticated financing system absorbing both the government's (national employment funds) and employers' and employees' contributions (unemployment insurance funds). Because of the nature of the target groups and high volatility of the local labour markets, the labour market training systems and their financing need to be much more decentralized than vocational education. In addition, their administration and funding require strong involvement of the local authorities and social partners.

In comparison to government administered and funded labour market training, a structure based on a grant-financed national training agency assigned to operate and finance training may be considered as an important step towards decentralization. This reform would normally result in

greater cost-effectiveness as national agencies are operationally more flexible and employ professional administrators.

An introduction of market sources into financing of training through gradual reduction of public allocation and corporatization of national training agencies or individual providers seem to be new promising alternatives. That is why more and more countries are choosing this pattern. However this option cannot gain ground in countries without developed training markets.

3. Recent VET structural and financing innovations

The problem of having VET directly administered and financed by central governments is that they normally do not possess the capacity either for operational management or for carrying out the technical support functions. Governments appear to be much more successful in developing VET policies, providing guidance and assessing the overall progress. Five major directions of delegation of decision making and financing powers have been identified.

First, decentralization of VET budgets to local authorities is the most common. The lower government levels may receive formula-based automatic revenue transfers from central budgets. In some countries, the sources of the local authorities' own revenues have been strengthened. Local administration of VET budgets appears to produce more coherent decisions which better target local economic growth, labour markets, equity issues, utilization of training capacity, etc. Local levels administering VET budgets tend to strengthen the professional core of their education managers. However, the delegation of power is not always accompanied by greater accountability of local decision-makers before the public and professional audience. In addition, the above positive implications of decentralization reforms are normally greater in political environments where local authorities were democratically elected but not nominated centrally. Some countries apply a model of "reluctant decentralization" under which disbursements of regional VET funds continue to be subject to the approval of the regional extentions of central ministries.

Second, many countries have established national training agencies which are fully responsible for vocational training operations through their decentralized offices and training centres. They are funded from government allocations and are free to develop and pursue their short-term plans which should, however, comply with the centrally developed VET policies. The obvious trend has been to reduce the agency's public allocation and to strengthen its self-financing from the market operation. Some countries corporatized their training agencies which, however, remain under government control.

Third, the remedy to the problem has been suggested through establishing non-government bodies staffed by professional administrators who are commissioned to administer public funds aiming at VET policies and targets set by the government. These employer-led bodies have the legal form of company and operate on the basis of contracts concluded with the government. At the local level, employer-led training partnerships have been encouraged and entrusted with the special purpose grants.

Fourth, some new co-financing schemes emphasizing the social partners' joint responsibility for labour market training have been developed. In some countries, sectoral organizations of the social partners have been legally assigned the responsibility to administer the public VET funds intended for upgrading of employees. In some countries, sectoral training activities are co-financed by the social partners and the government.

Fifth, several countries have shifted towards the market model under which government financial intervention is reduced to a minimum, while public VET agencies and schools are required to earn their funds. Sometimes a certain share of the public agencies' and providers' budgets may be secured. New arrangements based on performance-related funding of training providers appear to

have been able to make a strong impact. The providers' operations become market-driven and the better performers are rewarded. The mechanism of self-financing is a remarkably different alternative with its own advantages and constraints.

4. Requirements to VET funding systems

Financing can be organized through alternative schemes which may differ in both costs and results. VET financing implies who will receive funds, for what purposes, and on what conditions. Financing schemes are the leverage for directing VET systems towards specified policies and goals. Those who either provide or administer funds wield power in influencing training policies and targets, in setting training standards, and in controlling testing and certification. Important issues in designing VET financing mechanisms are that they are never neutral and, whether intended or not, they send certain signals to beneficiaries. Both institutions and individuals react to these signals in ways that would more greatly benefit them.

The world experience suggests several major requirements to the organization of VET systems and their financing. VET systems are normally expected to be demand-driven, rather than supply-driven; should ensure sufficient quality of skills acquired which enable trainees to find and hold jobs; should feature flexibility towards structural, technological and other changes; should secure equity, at least, in general skills training. It appears that certain VET financing schemes have greater capability than others in responding to the above requirements.

Accordingly, schemes of financing VET may be considered as appropriate, if:

- public VET budgets are secured and priorities for VET expenditure are established taking account of the necessity of public financial intervention and status of the VET markets, of expected effectiveness of the investment, and of the equity argument;
- alternative sources of financing relating to all direct and indirect beneficiaries are utilized and co-financing schemes are encouraged;
- public training funds are allocated on the basis of the demand for, rather than the supply of, training services;
- efforts are made to create and maintain national VET markets; financing interventions are made if labour markets fail to provide incentives to employers' and individuals' commitment to training. Through financing schemes, public VET providers are exposed to the market forces and demand-driven training is strengthened; better cost-efficiency of public VET is achieved without undermining equal access to VET;
- administration and financing of public VET is sufficiently decentralized, while disparities in VET funds are reduced; VET administration is made accountable to the contributors of funds and the general public;
- better performing VET institutions are eligible for government and employer financial incentives such as increased budgets, grants and loans.

IV. WHAT CAN BE DONE TO IMPROVE THE VET FUNDING SITUATION IN ETF PARTNER COUNTRIES?

1. Problems and solutions

The major problem faced by all countries in transition is underfunding of public VET due to the shortage of state education budgets. Another problem is that countries with limited education resources, more so than other countries, need to use them in a cost-efficient way. Solutions to these problems have been sought, first and foremost, through decentralization of public VET administration and funding by means of:

(a) Mobilizing local authorities' fund-raising powers in order to share funding responsibilities with the state;

(b) Redistributing general revenues towards regions and making local governments and social partners responsible for more efficient use of the state education resources; and

(c) Assigning to local authorities the responsibility to cover the cost of school maintenance. This was expected to result in improved cost-efficiency of local services and, therefore, a decrease in the cost of school maintenance.

Secondly, some countries tried to support training markets and expose public VET providers to market forces. Markets were thought to be more cost-efficient than direct distribution of public VET services resulting in achieving economies of scale. Since the market demand for VET has been weak in these countries because of the low liquidity of institutions and individuals, this avenue has not yet bourn fruit.

Thirdly, in addition to state and local budgets, sources of funds have been sought in the form of taxes imposed on enterprise payrolls. Although this report does not specifically dwell on taxes earmarked for education and training, it may be concluded that this important source has not been mobilized and has yet to be explored in the countries in question.

2. Advantages and risks of decentralized financing

The past experience of ETF partner countries with centralized administration and its prevailing mechanism of central collection and redistribution of general revenues between regions is the weak interest of local governments in decision-making and resolving local problems. This mechanism, although sometimes complemented by local initiatives and funds, is still viable in most of these countries. However in the period of transition, old problems have become aggravated by new developments. For instance, in larger countries, the variation in the local cost of maintaining schools has increased considerably due to privatization of the local supply of electricity, heat and water. In centralized VET funding mechanisms, this has resulted in a higher funding burden being automatically transferred to the state budget. Because of such variation, education ministries have been unable to establish standard school maintenance cost and simply have to pay huge VET bills issued by local authorities.

Generally speaking, the central administration and funding model which is normally based on standard decisions and, for instance, uses a standard cost principle, is simpler and often cheaper to implement. However, central decisions and funding schemes which, by their nature, dominate over local initiative, lose their operational flexibility and capability of taking account of regional/local variations in the demand for VET and in corresponding needs for funds and of schools' operational conditions. Centralized models are often unable to wield the best possible performance from each individual school.

Decentralization of VET has resulted in what may be called multi-level funding. Due to the wider resource base, multi-level funding certainly has an advantage over a single-funded system as the failure of one financial source may be compensated for by others. However, the comparative solvency of public budgets at each level and their interest in funding VET normally vary. The solvency of some regional and local budgets may well be much better than that of the state budget. On the other hand, multi-level funding assumes the involvement of a much larger number of decision-makers at all levels,some of who may lose interest in investing in VET when education, for whatever reason, acquires low priority or employment and business opportunities worsen because of the unfavourable capital investment climate.

The question often asked is, if VET financing is multi-level, which line of school budgets should be covered by central government and which should be covered at the local level? One opinion is that delegation of powers should be accompanied by securing the most sensitive parts of VET school funding, such as basic wages from state budgets, with other school expenditures being funded locally. Of course, regions are free to top-up staff wages from local sources and, of course, VET schools cannot work without staff. However, too frequently school budgets are solely composed of wages, with no funds available for equipment, curriculum development and other professional work. Such schools can hardly offer quality programmes. It would perhaps be wiser to have fewer, but better funded and effective schools.

It may be concluded that although central funding mechanisms may have the advantage of being cheaper and more secure, VET systems tend to lose in flexibility and outcome. By contrast, decentralized funding schemes tend to be more expensive, risk becoming insecure in certain conditions, and usually generate regional disparities in education funds. However, since local governments are normally more flexible and accountable to the local public, they are able to wield better performance from training institutions and achieve greater cost-efficiency of decentralized allocations.

3. Be aware of negative implications

A. Decentralized schemes

The new VET financing models based on markets and advanced decentralization appear to have some negative implications which need to be taken into account by countries in transition willing to apply them. Amongst the negative implications of decentralized VET funding are the following:

- If local authorities do not have sufficient funds and a firm interest in VET, or they are not legally pressured to finance VET on a recurrent basis, then the change from central to multi-level funding may result in a massive decline in educational funds;
- Local priorities may favour general education to the detriment of VET. Accordingly, decentralized education budgets may not sustain VET institutions;

- Because of the variation in local wealth for raising VET funds, multi-level funding apparently assumes local disparities. If there is no special correction mechanism involving funds from other levels, some regions may become incapable of funding their VET institutions;

- Creation of powerful local governments may noticeably increase overall public expenditure since, in practice, decentralization is rarely accompanied by any serious reduction in the administration staffing. In addition, the coordination of several levels involved in VET also has its cost and could cause delays in the decision-making process.

B. Market-based schemes

Negative implications of market-based financing may be:

- Public VET institutions may go bankrupt because of training market failure;

- Young people (and their parents) with limited savings may be pressured into buying training courses, thus sorting pupils on an income basis and thereby undermining the equity argument;

- School administrations become primarily involved in preparing tenders and have much less time to do things professionally. Management tends to become less collegiate with the decreasing importance attached to non-financing issues, such as quality, follow-up of graduates, etc.;

- VET institutions may be discouraged from offering programmes which are unable to generate best revenues, even though these might be the programmes that help the most disadvantaged.

Although market models are expected to be more efficient, the efficiency and equity arguments are inevitably in contention. Therefore, the utilization of market-based funding mechanisms should not only take account of common market imperfections resulting from an information deficit, but also the fact that the quite natural sorting function of the market can easily counter the equity argument. In order to exploit greater cost-efficiency of market-based funding schemes without undermining equal access to VET, special correction mechanisms may become indispensable.

4. How to use this report?

This report contains some conceptual notes and reviews practices of VET financing in some industrialized countries and countries in transition. The variety of financing schemes reviewed reflects different national traditions of public administration and conditions in which VET systems operate. In addition, the size of a country makes an enormous difference. It is obvious, for instance, that smaller countries have less need to introduce intermediary administrative levels and that funding schemes based on direct links between national governments and VET institutions are simple, cheap and effective. Therefore, there is no uniform solution for countries in transition which have their own traditions and conditions. This report does not implicitly assume that the ETF partner countries need to decentralize funding of education in order to resolve their financing problems. As has been discussed earlier, the delegation of powers to administer and finance VET is not a panacea and it, as any other management tool, has its weaknesses and requires certain conditions to prove advantageous. The report therefore does not intend to give recipes to

governments regarding the direction of change and the VET financing mechanisms to adopt in their countries.

It is now clear that the array of principal funding mechanisms in the world is limited, although it is possible that new schemes may still develop. In countries where conditions for change have yet to mature, the funding schemes created in industrialized economies should not be rejected. By contrast, they may be viewed as possible prototypes for long-term rather than immediate development.

It is assumed that national and other education authorities will use this report as a resource paper in their change process. Should any of the national experiences reviewed above be of interest to a particular country, the ETF Advisory Board would be prepared to provide the necessary details or even to identify experts to facilitate the VET financing reform.